



Industrial Packaging Merchants Push Toward Higher Profits

Higher Leveraging, Profits Depict Packaging Merchants

Go Beyond Stock Items and Processes

Shrink Wrap Trims 30% Off Frozen Food Maker's Bill

Automated Taper Cuts Losses, Boosts Productivity 20%

Create Works of Packaging Art



Profits

100%

90%

80%

70%

60%

New Monthly Product Section:
Market Place
(p.35)



NPTA MANAGEMENT NEWS

VOL. XXXII/NO. 1

Published by
National Paper Trade
Association, inc.

Publisher
William H. Frohlich

Editor
Joan Prevete O'Donnell

Contributing Editors
John J. Buckley
George Cain

Production Manager
Donn Shepherd

Advertising Manager
Joseph Fierro

*Advertising Sales
Representative*
James S. Forberg

Advertising Coordinator
Mary Jo Heidepriem

Art Director
Dagfinn Olsen

**Executive Committee
of the Board of Directors**

Chairman of the Board
Michael K. Olthoff

Vice Chairman
Jonathan O. Bloom

Vice Chairman
Brent R. Grover

Treasurer
S. Tucker Jones III

Past Chairman
James J. Swearingen

Ex Officio
President

John J. Buckley

Counsel

Michael B. Weir



readex•



N·A·W

NPTA Management News (ISSN 0739-2214) is published monthly by the National Paper Trade Association, Inc., at a subscription rate of \$15 per year. Second-class postage PAID at Great Neck, NY, and additional mailing office. POSTMASTER: Send address changes to NPTA Management News, 111 Great Neck Road, Great Neck, NY 11021, 516-429-3070. Statements of fact and opinion are the responsibility of the authors alone and do not imply approval on the part of NPTA or its member companies. Copyright 1991 by the National Paper Trade Association, Inc. Articles may not be reprinted without the publisher's permission. Please address all inquiries to the Editor. Original manuscripts and letters are welcome.

CONTENTS

- 12 Know the Rules of the Truck Leasing Game**
by Charles Ditolla
Here are some tips on how to squeeze the most from your truck leasing operation.
- 15 YEF Meet Helps Prepare Execs for Change**
by J. Franz Harris
The group's Mid Year Conference is set for March 14-17 in Orlando, FL.
- 16 NPTA Introduces Its Quality Service Skills Program**
The Association's new training program teaches how to make every customer interaction count.
- 17 Special Section: Industrial Packaging**
- 18 Higher Leveraging, Profits Depict Packaging Merchants**
by George Cain
PAR composite results reveal a difference between industrial packaging merchants and general line industrial merchants in terms of performance.
- 20 Go Beyond Stock Items and Processes**
by Pete Wendt
Distributors frequently must provide packaging solutions that are beyond the traditional stock lines.
- 21 Shrink Wrap Trims 30% Off Frozen Food Maker's Bill**
by John Nabozney
Leads come from the strangest places—this one from the grocery freezer.
- 21 Automated Taper Cuts Losses, Boosts Productivity 20%**
by Jess Washburn
Morrisette Paper solved a two-fold problem for an apparel manufacturer.
- 22 Create Works of Packaging Art**
by Drake Rittenhouse
Strokes of analysis can help design packaging that works.
- 26 JIT Delivery, Price Make the Grade at Colleges**
by Joan Prevete O'Donnell
When buying envelopes, universities give all A's to distributors that offer low prices, 24-hour service.
- 31 Internal Controls Take Away Temptations**
Common sense business practices make it difficult for employees to steal and easier for companies to detect.
- 35 New Department: Market Place**
Management News premieres a department that's devoted to the ever increasing number of new products on the market.

DEPARTMENTS

- | | | | |
|-----------|-----------------------------|-----------|-------------------------------|
| 4 | Viewpoint | 32 | The Sales Professional |
| 6 | Paper Clips | 37 | Ad Index |
| 7 | Industry Watch | 38 | Databank |
| 11 | Environmental Action | | |

Cover Photo: Richard Chesnut

Higher Leveraging, Profits Depict Packaging Merchants

PAR composite results reveal a difference between industrial packaging merchants and general line industrial merchants in terms of performance.

*by George Cain, Director
Research & Statistics
NPTA*

Packaging merchants perform differently than general line industrial merchants. They show more direct sales, higher earnings from discounts and lower handling costs. Statistics point to other characteristics, such as:

- Higher leveraging
- Higher profit before interest and taxes
- Poorer performance in collections and bad debt write-offs, and a mixed picture on other expense areas
- Lower office and delivery costs
- Higher administrative, storage and sales costs.

Industrial packaging merchants see themselves as different from general line industrial firms, and a review of three years' composite PAR results confirmed this view. Packaging merchants are the second largest industrial group in NPTA's annual PAR operating survey, with 1989 results covering more than 30 sales locations.

This *MN* review focuses on these areas of distinction, as reflected through ratios rather than absolute dollar expenses and through use of median performance measures. Medians indicate

that more than half the merchants were above the listed amount.

Direct Sales Are Higher

Median direct sales as a percent of total sales for packaging firms was over 25%, with general line industrial merchants showing a much lower median of 11.5% (See Chart #1). The particular

merchants (see Chart #1), while packaging direct margins for 1987 and 1988 were more noticeably above full-line direct margins.

These industrial direct sales figures show a long-term pattern of higher dependence on direct sales, compared to both total sales and as a vehicle for company profits.

Among industrial firms, only retail

packaging merchants would typically depend more on direct sales for both sales and profitability. In 1988 the retail packaging median direct sales percent was over 37%.

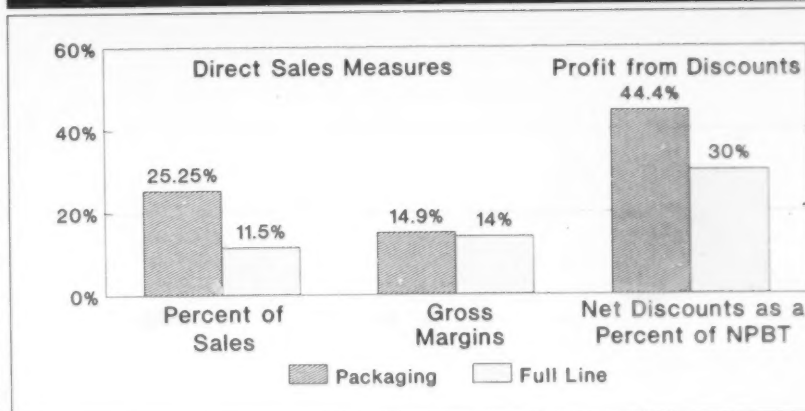
Discounts Produce Profits

Packaging firms in 1989 derived almost

half their profit before tax from their management of discounts (see Chart #1.), compared to 30% for the median full line merchant. Discounts are available to firms in exchange for quick payment. And timely payment to suppliers has long been a profitability mainstay for distributors.

Distributors also give discounts to their customers who pay promptly. But typically fewer customers take advan-

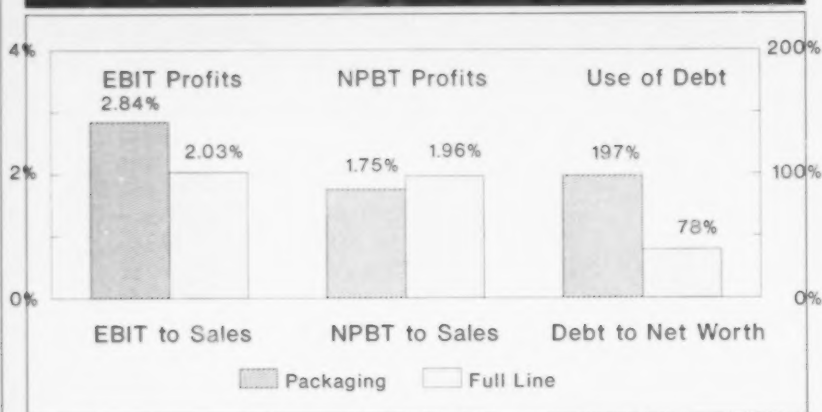
CHART 1



percentages varied, but the pattern of higher packaging direct sales percentages held true over the three years reviewed (1988 through 1990, for operations from 1987 through 1989).

In addition, this higher percentage did not bring lower gross margins. On the contrary, packaging merchants had higher median direct gross margins. Direct margins for '89 were slightly higher than those for full-line industrial

CHART 2



tage of these discounts.

Industrial packaging merchants appear to use the combination of these discounts to its maximum. In 1987 they were also the heaviest users, although in 1988 there was no noticeable difference when compared with full-line merchants.

EBIT Profits Are High

Earnings before interest and taxes (EBIT) can help assess operating performance separate from issues about how the firm's operations are financed (borrowed money versus invested capital). For 1989 operations, PAR included a measure on EBIT as a percentage of total sales. Packaging merchants' median performance of 2.84% was substan-

tially higher than the 2.03% median for full-line merchants. (See Chart #2.) A comparison with the traditional net profit before taxes measure illustrates the impact of borrowed money for packaging merchants. On this gauge, packaging medians were 1.75%, lower than the 1.96% full-line medians.

Not surprisingly, leveraging (working on borrowed money) was especially apparent for packaging firms in 1989. Their total debt to net worth was 197% compared to full-line merchant medians of 78%. (See Chart #2.) And the relative difference was even higher for medians on current debt to net worth.

Reliance on debt is not by itself an indication of profitability or lack of profitability. But the 1989 EBIT to sales per-

formance figures do confirm that borrowing money for operations can improve operating profits noticeably. This use of borrowed money may well be one reason packaging merchants were able to produce such dramatic performance on the handling of discounts discussed in the previous paragraph.

Collections Were Lower

Packaging firms performed poorly in the category of average collection days and bad-debt write-offs compared with full-line firms for the past three years. In 1989, the median for average collection days for packaging was 36.3 compared to the full-line 32.5.

Moreover, the packaging median for bad debts as a percentage of sales was .17%, almost 50% higher than the full-line median of .12%. This performance may be one of the reasons for packaging firms' reliance on borrowed monies for operations, as they have to wait almost four more days to receive payment from their customers.

Expenses Were Lower

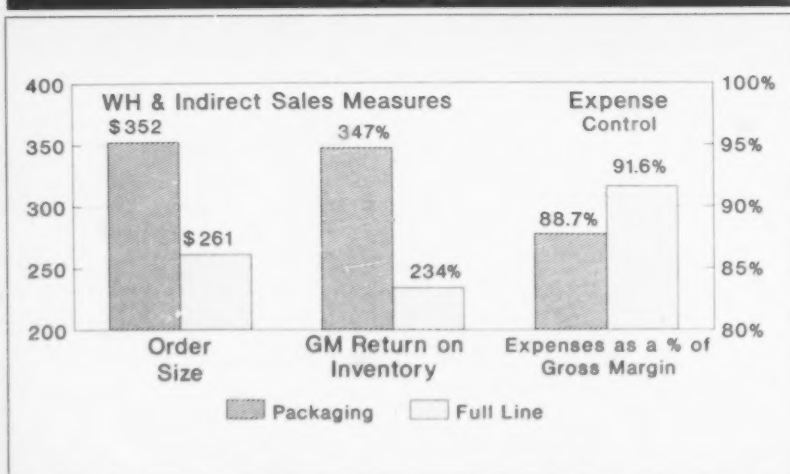
Medians on several expense measures show an advantage for packaging firms for the past three years. For packaging distributors in 1989, the total operating expenses as a percent of gross margin median was 88.7%, substantially lower than the full-line median of 91.6%. (See Chart #3.) Strong expense performance areas for packaging firms include handling, delivery and office costs. Comparative 1989 expense area percentages of gross margin were:

Expense Area	% of Gross Margins	
	Packaging	Full-Line
Total Expenses	88.7%	91.6%
Handling	8.5%	9.4%
Delivery	12.5%	14.1%
Office	9.4%	10.2%

These expense patterns have been relatively consistent over the past three years, as have some expense area medians which showed full-line merchants with lower ratios than those for packaging merchants. The only ratio with substantially lower packaging performance is for storage, which is the non-person-

(Continued on next page)

CHART 3



(Continued from page 19)

nel cost related to the warehouse. 1989 numbers were as follows:

Expense Area	% of Gross Margins	
	Packaging	Full-Line
Storage	7.9%	5.5%
Administrative	16.1%	16.0%
Sales & Sales Service	39.3%	39.1%

Warehouse Is Strong

Packaging merchants may very well rely on managing their warehouse and indirect sales business for much of their profit, despite the earlier discussion about profits from industrial packaging direct sales. Most PAR median measures related to warehouse and indirect sales reflect an advantage for packaging merchants over full-line firms.

Chart #3 lists two 1989 measures showing especially dramatic differences. The first, the average order size, is especially notable as packaging margins have typically been at or above those of full-line merchants. The second, gross margin return on inventory, reflects the combined impact of margins and the number of inventory turns. Both of these measures show dramatic advantages for packaging firms. ■

Go Beyond Stock Items and Processes

by Pete Wendt, Industrial Sales Manager,
Butler Paper Co.,
Menomonee Falls, WI

Butler Paper's Wisconsin Division has been involved in a number of unique and challenging packaging applications in the past two years. Most of these are simply a result of applying our philosophy—doing what is right for the customer by providing the correct and most cost effective materials available.

Even though a wide range of materials is accessible to us as a distributor, there have been numerous opportunities to provide packaging solutions that are not within the traditional "stock" lines. In those cases, we have gone through the research, development and testing of packaging to meet our customer's needs.

In one such application, a component part manufacturer to the appliance industry had been wrapping thousands of parts

per week in packaging foam surface protection, only to have the end-user dispose of the foam. Due to local restrictions imposed on the end-user, it became imperative that our customer eliminate this material from their packaging.

After a series of meetings, we proposed a reusable wrap, composed of a chipboard carrier laminated to an ultra lightweight synthetic fabric. Both components were readily available but had not been used together in this fashion.

Because the customer wished to purchase this material on a per-piece basis, we provide both the chipboard and fabric from their respective mills to a laminator and then to another converter to be sheeted or die cut.

All costs for the project are consolidated by Butler and billed to the customer on a per-piece basis. The end result is a cost savings, based on a per-use basis, of more than 50% for this customer. And the amount of scrap packaging material is reduced at the end-user level.

In a similar project, a maker of high quality shoes wanted to upgrade their package quality to reflect the excellence of their product. Although a number of setup box manufacturers existed in the area, none could accomplish the "look" that was desired.

Once we became involved, it was obvious to us that the solution required a series of separate processes to achieve the final package. To this end, a paper supplier with the appropriate sheet was found. This sheet was embossed and foil-stamped at a specialty printer, then sent to a setup box converter to be laminated and converted to a two-piece shoe box.

(Continued on next page)

Industrial Packaging Products

(This is a partial list of products for industrial packaging use.)

Aircap (bubbles)
Anti-Static Packing Products
Cushioned Bags
Chipboard/Indented Chip/Corrugated Board
Corner Protectors
Desiccant
Dunnage/Pelaspas
Drum Liners
Foam Wrap
Aluminum Foil
Tapes and Dispensers
Hot Melt & Spray Adhesives
Instapak Foam-In-Place
Kraft Papers
Labels and Dispensers
Carton Forming and Sealing Equipment
Boxes
Packing Newsprint
Protective Pads
Indented Bogus
Polyethylene Foam Rolls, Sheets

and Specialties
Polyurethane Foam Rolls, Sheets and Specialties
Packaging Film
Liners
Masking
Envelopes
Flame Resistant Papers
Military Specification Materials
Packaging Systems
Pouchpapers
Pressure Sensitive Tapes
Release Papers
Rust Inhibitors
Skid and Pallet Covers
Skin Packaging
Strapping
Tissue Paper
Tubes and Tubing
Twine and Cordage
Wadding
Waterproof Papers
Wrapping